

Growing employment through increased access to markets, upgrading and participation in high value fruit & nuts

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1 Problem statement

South Africa has largely missed out on the opportunities from global demand growth for fresh fruit, which is among the most labour-intensive area of agriculture. Interventions to increase market access, along with investment in expanded production and upgrading of capabilities together with wider participation in the sector can achieve substantial direct employment increases of 150 000 over the next five years in fruit production, along with packaging, logistics and related activities. Market access is critical to this growth. This involves phytosanitary standards and measures, coupled with trade negotiations and investment in related marketing and logistics. Limited capacity and competency issues in key government departments¹ to deal with phytosanitary standards and measures in different markets has resulted in trade-related issues being left pending for long periods and has meant local growers have been at a disadvantage relative to competitors. These challenges are exacerbated by the lack of/limited coordination across different departments, which undermines any efforts to implement interventions. The growth in some niches such as macadamia nuts, as well as growing citrus exports into traditional markets in the EU, demonstrates what is possible with concerted and coordinated action through a task team for fresh fruit and nuts to drive existing priorities.²

2 Jobs impact

South Africa's exports of fruit grew at an average of 3% per annum over the past five years (2012 to 2017) in volume terms. During the same period, competitors such as Mexico and Peru grew much faster, at 8% and 15% respectively, to meet strong growth in global demand for fresh fruits. If South Africa is to catch up with competitors and take advantage of the growth in global demand, it can achieve around 10% export growth per annum over the next five years, implying an increase in employment of around 44% in five years. This is also based on moves to higher value crops such as berries, and soft citrus, which are more labour-absorbing in production and packaging.

¹ Particularly the National Plant Protection Organisation and Department of Agriculture, Forestry and Fisheries (DAFF)

² See <https://www.competition.org.za/s/IDTT-Agriculture-and-Agro-processing-Value-Chains-Final-Project-Report-bpgy.pdf> and <https://www.businesslive.co.za/bd/opinion/2018-04-25-cherry-pick-high-value-exports-by-supporting-fresh-fruit-farmers/>

In 2016 South Africa produced approximately 7 million tonnes of fruit and employed around 300 000 people.³ Achieving a 10% growth in export volumes (on top of local market demand growth of 3%) implies that production will be 3.1mn tonnes larger or around 44% bigger in 2022. At this level of production, the fruit industry can create a further 130 000 jobs by 2022.⁴

To ensure a positive impact on employment, there need to be interventions in market access, technical capabilities and increased participation of black farmers. These efforts should also focus on increasing production of high value, more labour-absorbing crops through access to finance for farming inputs and addressing land and water issues.

Other anticipated benefits include opening-up wider participation through training and skills development of black farmers. There are existing initiatives to increase participation of black farmers in some areas such as the citrus industry.

3 Theory of change

The following initiatives build on existing interventions identified in the joint workshop between government and industry as part of the Trade Work Group of the Fruit Industry Value Chain Roundtable in 2016. To improve implementation of initiatives, there is need to set up a cross-department task team, with external expert resources in the following areas of market access, technical capabilities and participation of black farmers.

- **Phytosanitary standards and measures:** This is the biggest constraint for fresh fruit exports. Addressing phytosanitary issues requires additional capacity of qualified personnel in key institutions like DAFF and the NPPO to improve performance in regulatory functions and services.
- **Market development and support:** Although there are efforts from government to promote South African fruit in other markets, there is a mismatch between government programs and industry priorities with respect to target markets and funding. The cross-department task team should serve as a platform to improve consultations between government and industry to align market development funding and programs.
- **Implementation of online platforms:** DAFF has been slow in adopting and implementing electronic systems in their operations resulting in considerable time wasted by relying on paper based and spreadsheet systems. The industry has developed electronic registration systems such as Phytclean - used to capture data on fields and packhouses and Titan. These initiatives can be used together with initiatives to improve and lower costs of traceability of small famers (such as Provenance).
- **Technical capabilities:** Maintaining and negotiating markets requires technical skills and capabilities. At present, industry conducts most of the research with some areas such as the citrus industry operating a dedicated industry research and development division.

³ This is based on 2015 employment figures and it is broken down as follows: 179 948 people were directly employed in fruit growing while 8 000 people provided services (such as inputs) directly to the fruit industry. A further 109 0000 people were employed in the downstream linked activities, bringing total employment to 296 948. We understand there has in fact already been good growth from 2015 to 2017.

⁴ Note, this includes some employment growth which would be achieved from continuing to meet domestic demand.

Building technical capabilities in the industry requires putting in place structures and processes in government to make better use of industry research and technical resources.

- **Investments in logistics:** Transport infrastructure particularly rail and ports are critical to ensure cost effective movement of fruit produce. Although there is progress on investments in rail, there are opportunities to upgrade and expand the services. Investments in transport infrastructure should be complemented by investments in cold chain facilities and pack houses, which are important for increasing the shelf life of the product
- **Participation:** A key focus area for skills development of black farmers is around export grower skills. There are existing initiatives such as the Citrus Growers Association Grower Development Company providing training and skills to black farmers. However, access to finance to invest on the land and packhouses remains a challenge for black farmers. Initiatives to increase black participation should be complemented by government funding to maximise the benefits of training and skills development.
- **Finance:** Finance for investment to make use of dedicated funds, drawing on existing facilities at DFIs and private sector.

Output and desired outcomes

- Improved market access in large and growing markets including China, USA, EU, Russia, South Korea, Japan, Thailand, India and Indonesia
- Increased production and investment
- Wider participation, including by black farmers

4 Existing initiatives/experience

The Trade Work Group of the Fruit Industry Value Chain Roundtable in 2016 identified a number of interventions to increase exports of fresh fruit from South Africa. This is an initiative that was started by Fruit South Africa in partnership with government (including National Treasury, DAFF and DTI) in 2014. Government and industry through a joint workshop identified priority markets for growth including key constraints in each market. The initiatives focused on addressing selected issues to improve market access. These included phytosanitary standards and measures, market development, adoption of IT systems in certification and export processes, and reducing tariffs by leveraging South Africa's membership in the BRICS government to secure preferential trade agreements for South African fruit products with Russia, China and India.

Although there has been progress on a few areas, it has been limited and stalled particularly around phytosanitary issues, tariffs and capacity within government to perform the various regulatory services and functions. A key lesson from the existing interventions is the need to coordinate across the different departments to ensure successful outcomes.

There are other industry initiatives underway, especially in citrus as it is the largest and most established association. The citrus industry is implementing a transformation initiative through the Citrus Growers Association Grower Development Company. The company provides training and skills development to 124 black farmers. On the other hand, smaller associations

such as in berries lack the industry capacity, capital and technology to negotiate for new market access.

5 Constituency participation in implementation

There is potential for different actors in the industry (growers, producers, and exporters, unions, government) to participate in the implementation of the proposal. Engagements with industry associations have thus far received their support. There is also growing participation of smaller farmers through existing initiatives providing training to black farmers particularly in areas such as citrus. However, this needs to bring together advice, finance, land and water and build capabilities over time for broader range of fruit and nuts. As high value products which can support higher wages, government can benefit from job creation and foreign exchange earnings.

6 Benefits

Group	Job creation	Other benefits	Time frame for success
Local communities	Employment		
Established large & medium growers, exporters	Employment	Access to rapidly growing markets. Greater security in terms of market retention through ongoing compliance. Improved logistics	2-3 years
Black farmers		Access to markets for their produce	3-5 years

7 Cost and potential sources of funding

Group	Anticipated costs	Potential sources of funding to implement the project	Time frame for impact
Growers and associations	R3 million per annum (Task team operating costs, traceability initiative, market research, travel, meetings)	Private sector and government resources	1-3 years
Logistics providers			
Government depts –DTI, DAFF, IDC			

8 Risks

Competing interests across different departments undermine action on initiatives. Trade negotiations mean access on fruit is blocked by other country demands on access to the South African market for manufactured products.

There is also risk of global over-supply of fruit such as avocados where other countries are also increasing production to meet growth in global demand.

9 Risk mitigation

There is need to create a platform or task team of high level persons from the relevant departments where government and industry can meet and discuss issues affecting the industry. This task team could serve to mitigate the risks of lack of coordination in government.

South Africa can use its BRICS membership and position as a smaller country to negotiate preferential terms in these markets. South Africa currently has less favourable terms than Chile, Peru and Australia into Chinese market for many fruits.

To mitigate risk, it is important that South Africa produces high quality fruit including diversifying markets and fruits to spread risk. A key aspect around maintaining markets is maintaining market intelligence on demand and pricing patterns internationally.

10 Other comments